MDC HOLDINGS INC
Form 10-K/A
October 11, 2006

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A
Amendment No. 1

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2005

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition period from __________ to __________

Commission file number 1-08951

M.D.C. HOLDINGS, INC.
(Exact name of Registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**84-0622967** **(I.R.S. Employer Identification No.)**
4350 South Monaco Street, Suite 500 **Denver, Colorado** **(Address of principal executive offices)**	**80237** **(Zip code)**

(303) 773-1100
(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$.01 par value	New York Stock Exchange/The Pacific Stock Exchange
7% Senior Notes due December 2012	New York Stock Exchange
5 1/2% Senior Notes due May 2013	New York Stock Exchange
5 3/8% Senior Notes due December 2014	New York Stock Exchange
5 3/8% Senior Notes due July 2015	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ **No** o

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o **No** þ

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes þ **No** o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K/A or any amendment to this Form 10-K/A. þ

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ **Accelerated filer**o **Non-accelerated filer** o

Indicated by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o **No** þ

As of June 30, 2005, the aggregate market value of the Registrants common stock held by non-affiliates of the Registrants was $2.762 billion based on the closing sales price of $82.25 per share as reported on the New York Stock Exchange.

As of January 31, 2006, the number of shares outstanding of Registrant s common stock was 44,659,000.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K/A is incorporated by reference from the Registrant s 2006 definitive proxy statement to be filed with the Securities and Exchange Commission no later than 120 days after the end of the Registrant s fiscal year.

Table of Contents

EXPLANATORY NOTE: This Form 10-K/A is being filed to provide additional segment reporting footnote disclosure related to our homebuilding operations. We have restated the accompanying Consolidated Financial Statements to revise our segment disclosures for all periods presented by disaggregating our homebuilding segment into four reportable segments. See our revised disclosures in Note 4 to the Consolidated Financial Statements. This amendment does not reflect events occurring after the filing of our Annual Report on Form 10-K on March 7, 2006, nor does it modify or update those disclosures, except as discussed above or in Note 2 to the Consolidated Financial Statements.

This Form 10-K/A has all Items included in our Form 10-K filed March 7, 2006. However, this Form 10-K/A amends and restates only Items 1, 6, 7, 8 and 9A of the 2005 Annual Report on Form 10-K, in each case solely to be responsive to certain disclosure comments, primarily relating to segment reporting, received from the Division of Corporation Finance of the Securities and Exchange Commission. The restatement has no impact for any periods presented on: our total assets, liabilities or stockholders equity included in the Consolidated Balance Sheets; net income or earnings per share amounts included in the Consolidated Statements of Income; and the Consolidated Statements of Cash Flows.

M.D.C. HOLDINGS, INC.
FORM 10-K/A
For the Year Ended December 31, 2005

Table of Contents

M.D.C. HOLDINGS, INC.
FORM 10-K/A
PART I

Forward-Looking Statements.

Certain statements in this Form 10-K/A, the Company s Annual Report to Shareowners, as well as statements made by us in periodic press releases, oral statements made by our officials in the course of presentations about the Company and conference calls in connection with quarterly earnings releases, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include statements regarding our business, financial condition, results of operation, cash flows, strategies and prospects. Although we believe that the expectations reflected in the forward-looking statements contained in this Report are reasonable, we cannot guarantee future results. These statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from those expressed or implied by the forward-looking statements. These factors include those described under the captions Risk Factors Relating to our Business in Item 1A of this Report. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. However, any further disclosures made on related subjects in subsequent reports on Forms 10-K, 10-Q and 8-K should be consulted.

Item 1. *Business.*

(a) *General Development of Business*

M.D.C. Holdings, Inc. is a Delaware Corporation. We refer to M.D.C. Holdings, Inc. as the Company, MDC, we or our in this Form 10-K/A, and these designations include our subsidiaries unless we state otherwise. Our primary business is owning and managing subsidiary companies that sell and build homes under the name Richmond American Homes. Richmond American Homes maintains operations in certain markets within the United States, including Arizona, California, Colorado, Delaware Valley (which includes Pennsylvania, Delaware and New Jersey), Florida, Illinois, Maryland, Nevada, Texas (although we recently reported our decision not to contract for the acquisition of additional land in our Texas markets), Utah and Virginia. We believe a significant presence in these markets enables us to compete effectively for homebuyers, land acquisitions and subcontractor labor.

Our financial services operations consist of HomeAmerican Mortgage Corporation (HomeAmerican), which originates mortgage loans primarily for our homebuyers, American Home Insurance Agency, Inc. (American Home Insurance), which offers third party insurance products to our homebuyers and American Home Title and Escrow Company (American Home Title), which provides title agency services to our homebuyers in Colorado, Delaware, Florida, Illinois, Maryland, Texas, Virginia, and West Virginia.

The following is a summary of our history:

1972	Founded as Mizel Development Corporation and completed initial public offering.
1977	Created Richmond Homes Limited and entered the Colorado homebuilding market.
1983	Created HomeAmerican Mortgage Corporation, entered the Arizona homebuilding market through the acquisition of Cavalier Homes of Arizona and entered the Florida* homebuilding market through the acquisition of Olin American of Florida.
1985	Entered the Northern and Southern California homebuilding markets and expanded these operations through the acquisition of Ponderosa Homes of Southern California.
1986	Entered the Texas* and suburban Washington D.C., including Maryland and Virginia, homebuilding markets through the acquisition of Wood Bros. Homes, Inc.
1987	Entered the Nevada homebuilding market.
1995	Expanded our Southern California operations through the purchase of the assets of Mesa Homes, thereby significantly increasing our presence in the Inland Empire.
1996	Expanded our Nevada operations through the purchase of the assets of Longford Homes.

2002	Entered the Utah homebuilding market and expanded our Nevada and Virginia operations through the purchase of the assets of John Laing Homes in these markets, and also re-entered the Texas homebuilding market.
2003	Entered the Delaware Valley and Illinois homebuilding markets, and re-entered the Florida homebuilding market through the purchase of the assets of Crawford Homes, Inc. in Jacksonville.
2004	Expanded our Florida operations through the purchase of the assets of Watson Home Builders, Inc. in Jacksonville and expanded our Delaware Valley operations by acquiring control of approximately 600 residential lots from Patriot Homes, LLC, and others, in southern New Jersey.
2005	Expanded our California operations by acquiring control of approximately 1,200 finished residential lots in the Central Valley of California from Del Valle Homes.

* We ceased homebuilding operations in Florida and Texas in 1988 and 1990, respectively, and re-entered these markets in 2002 and 2003, respectively.

(b) *Available Information*

Our website is located at www.richmondamerican.com. This Form 10-K/A and all other reports filed by the Company with the Securities and Exchange Commission (SEC) can be accessed, free of charge, through our website as soon as reasonably practicable after the report is filed electronically with the SEC, at http://www.investorrelations.richmondamerican.com/edgar.cfm.

(c) *Financial Information About Industry Segments*

Note 4 to the Consolidated Financial Statements contains information regarding our business segments for each of the years ended December 31, 2005, 2004 and 2003.

(d) *Narrative Description of Business*

Our business consists of two primary operations, homebuilding and financial services. In our homebuilding operations, we build and sell primarily single-family detached homes, although we build some townhomes in certain markets. Our homes are designed and built to meet local customer preferences. We are the general contractor for all of our projects and retain subcontractors for site development and home construction. Our financial services operations consist of the operations of HomeAmerican, American Home Insurance and American Home Title. HomeAmerican is a full service mortgage lender with offices located in each of our markets and originates or brokers mortgage loans for approximately 70% of our homebuyers. As a result, HomeAmerican is an integral part of our business.

The base prices for our homes primarily range from $150,000 to $650,000, although we also build homes with base prices above $1.6 million. The average sales price of our homes closed in 2005 and 2004 was $313,800 and $283,400, respectively. We maintain a variety of product offerings in each of our markets, targeting what we believe to be, based upon our experience within the homebuilding industry, the largest homebuyer segments within a given market, which generally are the first-time and first-time move-up buyer. As a result, more than 80% of our homebuyers fall into these two categories. Also, we build a limited number of homes for the second-time move-up and luxury buyer.

When opening a new homebuilding project, we seek to maintain a two-year supply of lots to avoid overexposure to any single sub-market. When we acquire finished lots, we prefer using option contracts or paying in phases with cash. Also, we acquire entitled land for development into finished lots when we determine that the risk is justified. Our Asset Management Committees, which include members of MDC s senior management, generally meet weekly to review all proposed land acquisitions and takedowns of lots under option. Additional information about our land acquisition practices may be found in the Homebuilding Operations, *Land Acquisition and Development* section.

Table of Contents

Homebuilding Operations.

Our operations sell and close homes in geographically diversified markets. Our home sales revenue by market is in the following table for the years 2003 through 2005 (dollars in thousands).

	Total Homes Sales Revenue			Percent of Total		
	2005	2004	2003	2005	2004	2003
Arizona	$ 831,796	$ 627,331	$ 547,697	17%	16%	19%
California	1,075,900	1,078,063	748,337	23%	27%	26%
Colorado	627,042	614,919	675,236	13%	16%	24%
Delaware Valley	12,196			0%		
Florida	238,054	81,635	15,655	5%	2%	1%
Illinois	33,490	994		1%	0%	
Maryland	191,365	161,561	112,975	4%	4%	4%
Nevada	920,728	676,252	383,659	19%	17%	13%
Texas ..	128,289	109,432	26,143	3%	3%	1%
Utah	204,496	113,579	48,331	4%	3%	2%
Virginia	539,519	468,247	293,295	11%	12%	10%
Total	$ 4,802,875	$ 3,932,013	$ 2,851,328	100%	100%	100%

Economies of Scale. We are a large homebuilding company in the United States, as well as most of the markets in which we operate, in terms of number of homes closed in fiscal 2005 and consolidated revenues. Our economies of scale have contributed to improvements in our homebuilding operating margins. We believe that our national, regional and local scale of operations have provided us with benefits such as:

The ability to negotiate volume contracts with material suppliers and subcontractors;

Earlier opportunities to contract for large land parcels;

Availability of insurance coverage; and

Greater access to and lower cost of capital.

Operating Divisions. At December 31, 2005, we had 27 separate homebuilding operating divisions, some of which are in the same market area and some of which operate in more than one market area. Generally, each operating division consists of a division president; land procurement, sales, construction, customer service, finance, and purchasing personnel; and office staff. We believe that division presidents and their management teams, who are familiar with local market conditions, have better information on which to base decisions regarding local operations. Our division presidents receive performance bonuses based upon achieving targeted financial and operational results in their respective operating divisions.

Regional and Corporate Management. We manage our homebuilding business through our regional offices. Some of our regional offices oversee operations in only one of our geographic markets, and others oversee operations in more than one geographic market. Generally, each regional office consists of a regional president, finance personnel, purchasing personnel and limited office support staff. Our regional presidents and their management teams are responsible for oversight of the operations of multiple homebuilding operating divisions. These responsibilities include:

Review and approval of division business plans and budgets;

Allocation of inventory investments within corporate guidelines;

Oversight of land and home inventory levels; and

Review of major personnel decisions.

Table of Contents

Our corporate executives and corporate and national departments generally are responsible for establishing and monitoring compliance with our policies and procedures. Among other things, the corporate office also has primary responsibility for:

- Asset management and capital allocation;
- Financial reporting;
- Legal;
- Information technology;
- Internal audit;
- Marketing;
- Merchandising;
- Training and development;
- Risk management; and
- Treasury.

Housing. We build homes in a number of standardized series, each designed to appeal to a different segment of the homebuyer market. Within each series, we build several models, each with a different floor plan, elevation and standard and optional features. Differences in sales prices of similar models in any series depend primarily upon demand, location, optional features and design specifications. The series of homes offered at a particular location are based on perceived customer preference, lot size, the area s demographics and, in certain cases, the requirements of major land sellers and local municipalities.

We maintain limited levels of inventories of unsold homes in our markets. Unsold homes in various stages of completion allow us to meet the immediate and near-term demands of prospective homebuyers. In order to mitigate the risk of carrying excess inventory, we have strict procedures and limits on the number of our unsold homes under construction. At December 31, 2005, we had 1,131 unsold homes under construction.

Land Acquisition and Development. We generally purchase finished lots using option contracts, in phases or in bulk for cash. We also acquire entitled land for development into finished lots when we believe that the risk is justified. In making land purchases, we consider a number of factors, including projected rates of return, sales prices of the homes to be built, population and employment growth patterns, proximity to developed areas, estimated costs of development and demographic trends. Generally, we acquire finished lots and land for development only in areas that will have, among other things, available building permits, utilities and suitable zoning. We attempt to maintain a supply of finished lots sufficient to enable us to start homes promptly after a contract for a home sale is executed. This approach is intended to minimize our investment in inventories and reduce the risk of shortages of labor and building materials. Increases in the cost of finished lots may reduce Home Gross Margins (as defined below) in the future to the extent that market conditions would not allow us to recover the higher cost of land through higher sales prices. We define Home Gross Margins to mean home sales revenue less home cost of sales (which primarily includes land and construction costs, capitalized interest, closing costs and a reserve for warranty expense) as a percent of home sales revenue. See **Forward-Looking Statements** above.

We have the right to purchase a portion of the land we may acquire in the future utilizing option contracts, in some cases in phases for cash. Generally, in an option contract, we obtain the right to purchase lots in consideration for an option deposit. In the event we elect not to purchase the lots within a specified period of time, we forfeit the option deposit. Our option contracts generally do not contain provisions requiring our specific performance. At

December 31, 2005, we had the right to acquire 18,819 lots under option agreements, with approximately $48.2 million and $23.1 million in non-refundable cash and letters of credit option deposits at risk, respectively, which had an aggregate purchase price of approximately $1.2 billion. Because of increased demand for finished lots in certain of our markets, our ability to acquire lots using rolling options has been reduced or has become significantly more expensive.

We own or have the right under option contracts to acquire undeveloped parcels of real estate that we intend to develop into finished lots. We develop our land in phases (generally fewer than 100 lots at a time for each home series in a subdivision) in order to limit our risk in a particular project and to efficiently employ available funds. Building permits and utilities are available and zoning is suitable for the current intended use of substantially all of our undeveloped land. When developed, these lots generally will be used in our homebuilding activities. See **Forward-Looking Statements** above.

Table of Contents

The table below shows the carrying value of land and land under development, by market, at December 31, 2005, 2004 and 2003 (in thousands).

	December 31,		
	2005	**2004**	**2003**
Arizona	$ 263,849	$ 170,776	$ 90,535
California	503,491	288,479	255,089
Colorado	154,465	139,953	105,223
Delaware Valley	46,561	28,916	
Florida	68,950	27,926	12,116
Illinois	33,421	33,656	
Maryland	89,721	69,905	53,842
Nevada	341,437	212,703	134,437
Texas	15,511	19,420	16,420
Utah	62,264	35,104	22,548
Virginia	98,278	102,401	95,331
Total	$ 1,677,948	$ 1,129,266	$ 785,541

The table below shows the number of lots owned and controlled under option (excluding lots in housing completed or under construction), by market, at December 31, 2005, 2004 and 2003 (dollars in thousands).

	December 31,		
	2005	2004	2003
Lots Owned			
Arizona	7,385	5,657	2,902
California	3,367	2,646	2,733
Colorado	3,639	3,993	3,392
Delaware Valley	471	312	
Florida	1,201	594	346
Illinois	430	508	
Maryland	679	650	532
Nevada	4,055	3,916	3,634
Texas	471	642	534
Utah	964	862	867
Virginia	783	980	1,411
Total	23,445	20,760	16,351
Lots Controlled Under Option			
Arizona	3,650	5,494	2,356
California	2,005	1,782	779
Colorado	2,198	1,866	1,814
Delaware Valley	1,283	723	
Florida	3,202	2,980	529
Illinois	186	203	
Maryland	1,173	1,206	1,235
Nevada	1,400	1,859	1,725
Texas	80	1,694	1,669
Utah	418	216	353
Virginia	3,224	3,141	1,791
Total	18,819	21,164	12,251
Total Lots Owned and Controlled	42,264	41,924	28,602
Non-refundable Option Deposits			
Cash	$ 48,157	$ 41,804	$ 17,089
Letters of Credit	23,142	22,062	8,225
Total Non-refundable Option Deposits	$ 71,299	$ 63,866	$ 25,314

At December 31, 2005, we owned a total of 23,445 lots, of which 10,619 lots were finished. In addition, 1,338 of these finished lots were subject to home sales contracts for which construction had not started. The remaining 12,826 lots were unfinished and in the process of being developed for future home sales. We believe we are well-positioned for future growth, consistent with our operating approach of seeking to maintain control of approximately a two-year supply of lots. See **Forward-Looking Statements** above.

Labor and Raw Materials. For the most part, materials used in our homebuilding operations are standard items carried by major suppliers. We generally contract for our materials and labor at a fixed price for the anticipated construction period of our homes. This allows us to mitigate the risks associated with increases in building materials and labor costs between the time construction begins on a home and the time it is closed. Increases in the cost of building materials, particularly lumber, and subcontracted labor may reduce Home Gross Margins to the extent that market conditions prevent the recovery of increased costs through higher sales prices. From time to time and to varying degrees, we may experience shortages in the availability of building materials and/or labor in each of our markets. These shortages and delays may result in delays in the delivery of homes under construction, reduced Home Gross Margins, or both. See **Forward-Looking Statements** above.

Customer Service and Quality Control. Our operating divisions are responsible for pre-closing quality control inspections and responding to customers post-closing needs. Homebuyers are encouraged to become familiar with the details of their new home and to learn their care and maintenance responsibilities. They are afforded the opportunity to walk through their new home prior to closing to make sure it is ready for their occupancy. We believe that our pre-closing quality control inspections reduce post-closing repair costs and enhance our reputation for quality and service.

Warranty. Our homes are sold with limited third-party warranties that generally provide for ten years of structural coverage (structural warranty), two years of coverage for plumbing, electrical and heating, ventilation and air conditioning systems, and one year of coverage for workmanship and materials. Under our agreement with the issuer of the third-party warranties, we are responsible for performing all of the work for the first two years of the warranty coverage, and substantially all of the work required to be performed during years three through ten of the warranties. As a consequence, warranty reserves are established as homes close on a house-by-house basis in an amount estimated to be adequate to cover expected costs of materials and outside labor during warranty periods. Reserves are determined based upon historical experience with respect to similar product types and geographical areas. Certain factors are given consideration in determining the per-house reserve amount, including: (1) the historical range of amounts paid per house; (2) the historical average amount paid per house; (3) any warranty expenditures included in (1) and (2) not considered to be normal and recurring; (4) improvements in quality control and construction techniques expected to impact future warranty expenditures; and (5) conditions that may affect certain projects and require higher per-house reserves for those specific projects.

Seasonal Nature of Business. Our homebuilding operations are seasonal in that some of our divisions, especially in the northernmost markets, are subject to weather-related slowdowns. Delays in development and construction activities resulting from adverse weather can increase our risk of buyer cancellations and contribute to higher costs for interest, materials and labor. See **Forward-Looking Statements** above.

Backlog. At December 31, 2005 and 2004, homes under contract but not yet delivered (Backlog) totaled 6,532 and 6,505, respectively, with an estimated sales value of $2.44 billion and $1.92 billion, respectively. Our home order cancellation rates were 23.7% and 25.3% for the years ended December 31, 2005 and 2004, respectively. We define home order Cancellation Rate as total cancelled home order contracts during a specified period of time as a percent of total home orders received during such time period. Assuming our historical Cancellation Rates are indicative of future Cancellation Rates, and assuming no significant long-standing change in market conditions and mortgage interest rates, we anticipate that approximately 70% to 80% of our December 31, 2005 Backlog will close under existing sales contracts during 2006. The remaining 20% to 30% of the homes in Backlog are not expected to close under existing contracts due to cancellations. See **Forward-Looking Statements** above.

Table of Contents

The table below discloses, by market, our Backlog for the years ended December 31, 2005 and 2004 (dollars in thousands).

	December 31,		2005 Increase (Decrease)	
	2005	2004	Amount	%
Backlog (*Units*)				
Arizona	2,099	2,143	(44)	-2%
California	765	807	(42)	-5%
Colorado	577	692	(115)	-17%
Delaware Valley	181	23	158	N/A
Florida	599	638	(39)	-6%
Illinois	80	18	62	N/A
Maryland	251	225	26	12%
Nevada	1,023	746	277	37%
Texas	238	256	(18)	-7%
Utah	338	289	49	17%
Virginia	381	668	(287)	-43%
Total	6,532	6,505	27	0%
Estimated Backlog Sales Value	$ 2,440,000	$ 1,920,000	$ 520,000	27%
Estimated Average Sales Price in Backlog	$ 373.5	$ 295.2	$ 78.3	27%

Although units in Backlog remained relatively flat at the end of 2005, compared with 2004, the $78,300 increase in the average selling price for units in Backlog resulted in the estimated Backlog sales value increasing by 27% to $2.44 billion at December 31, 2005 from $1.92 billion at December 31, 2004. This increase, which was led by our Nevada, Arizona, Florida and Delaware Valley markets, was offset partially by lower Backlog sales value in Virginia and Colorado.

Our 2005 year-end Backlog in Nevada increased 37% from December 31, 2004, primarily due to a 23% increase in average active subdivisions from 2004, as well as continued strong demand for new homes in this market. Combined Backlog in our newest markets of Delaware Valley and Illinois increased to 261 units at December 31, 2005, compared with 41 units at December 31, 2004, primarily due to an increase in the number of active subdivisions during 2005 resulting from our on-going efforts to grow in these markets. In Virginia, Backlog decreased, primarily due to an increase in our 2005 fourth quarter cancellations from the same period in 2004, as well as fewer home orders during 2005, compared with 2004, due to decrease in the average number of active subdivisions during 2005. Speculative buyers have recently begun exiting the new home market, resulting in what we believe to be a primary cause of this increase in cancellations, as well as a lower demand for new homes. As a result, the supply of homes available to be purchased by prospective buyers has increased in certain markets. Our Backlog in Colorado decreased as well, primarily due to fewer home orders in 2005 resulting from a more competitive environment for new homes in this market.

Marketing and Sales. To communicate our brand as effectively as possible, we created an in-house advertising and marketing agency in March 2003, which helps us control quality and consistency in our execution. Our agency s main objective is to direct qualified homebuyers to our sales offices, Home Galleries, Homebuyer Resource Centers and website. In addition, our in-house corporate communications team manages public relations and employee communication efforts and our interactive marketing team manages and maintains the MDC website and leads management activities.

To complement our marketing efforts, the MDC brand also is reflected in our model homes and sales offices. Our in-house team of interior designers directs the merchandising plan for these homes, resulting in an exceptional overall presentation. Achieving brand consistency across all of these functions helps to enhance customer loyalty.

We believe that all employees who serve our homebuyers should represent us professionally. Therefore, our on-site Sales Associates, Design Consultants and New Home Specialists undergo a region-specific 90-day training program in order to help meet customer needs.

Table of Contents

Home Gallery and Design Center. Another important part of our marketing presentation takes place in our design centers, which are located in most of MDC s homebuilding markets. Homebuyers are able to customize certain features of their homes by selecting from a variety of options and upgrades. In 2004, we launched our new Home Gallery concept in certain markets. These Home Galleries combine sales support and offer thousands of options for personalizing new homes. This retail location also serves as a resource to homebuyers who are interested in purchasing a new Richmond American home. Prospective homebuyers can receive individualized attention from a trained team of new home specialists, resulting in a more focused, efficient home search.

Competition. The homebuilding industry is fragmented and highly competitive. We compete with numerous homebuilders, including a number that are larger and have greater financial resources. Homebuilders compete for customers, desirable financing, land, building materials and subcontractor labor. Competition for home orders primarily is based upon price, style, financing provided to prospective purchasers, location of property, quality of homes built, customer service and general reputation in the community. We also compete with subdivision developers and land development companies when acquiring land. See **Forward-Looking Statements** above.

Mortgage Interest Rates. Our homebuilding operations are dependent upon the availability and cost of mortgage financing. Increases in home mortgage interest rates may reduce the demand for homes and home mortgages which could negatively impact our business. We are unable to predict future changes in home mortgage interest rates or the impact such changes may have on our operating activities and results of operations. See **Forward-Looking Sta**